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FOOD

Culinary trends merge tastes

Florence Fabricant/Page 8

FOCUS

The competitive edge in hot beverages

Focus section follows page 36

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Patt Patterson/Page F4

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The Weekly Newspaper of the Food-Service Industry

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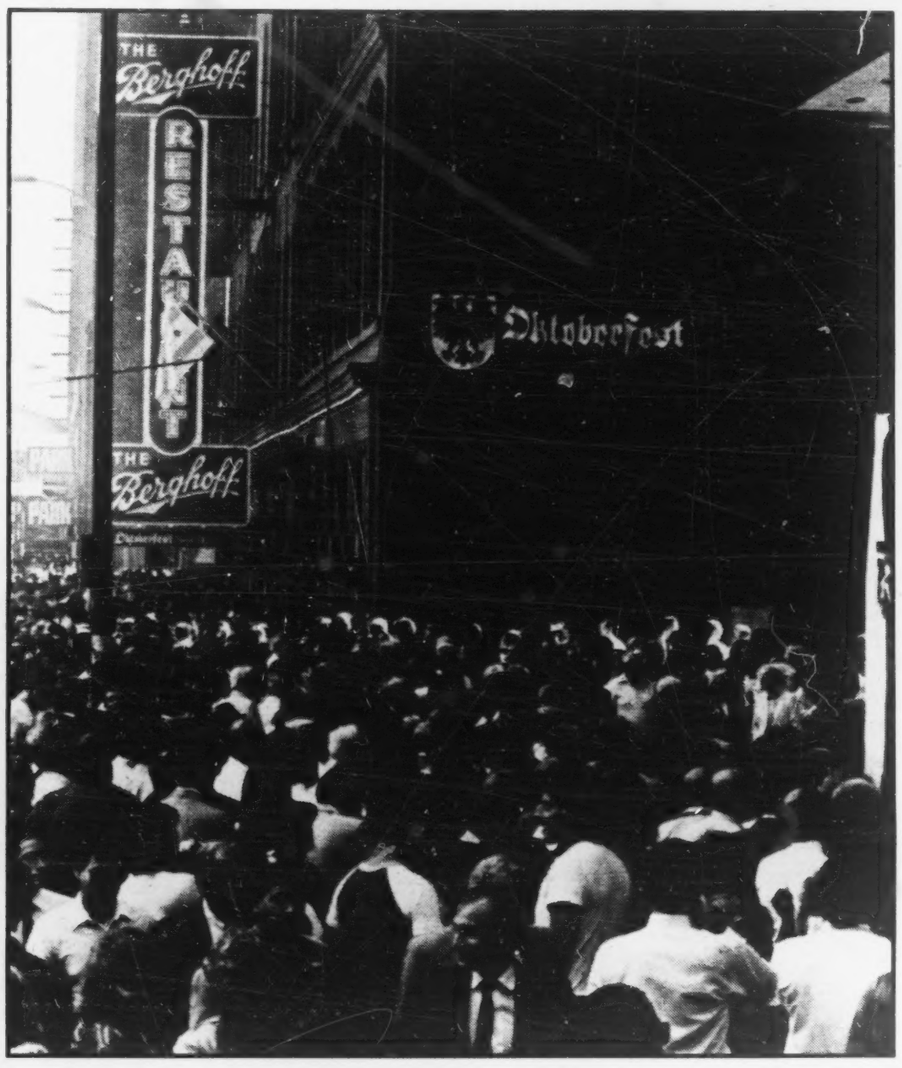

Crowds jam the closed-off street in front of The Berghoff Restaurant's Oktoberfest in Chicago.

Ecological pressures to shake up kitchens

Equipment worries emerge at NAFEM

By Rick Van Warner

DALLAS — Food-service kitchens, already being reshaped by a shrinking labor pool and rapidly changing employee demographics, will be rattled in the 1990s by yet another revolutionary force: strains on the environment.

The biennial National Association of Food Equipment Manufacturers show here flashed early warnings of the environmental land mines that lie ahead.

Operators, consultants, manufacturers and dealers alike expressed worries about mounting environment-related regulations and the eventual effect on their respective businesses.

Although labor-efficient, multiuse and space-efficient equipment still topped most shopping lists at the show, it was clear that a new equipment concern lies in wait. Attendees grumbled about problems ranging from emission control standards in California to landfill problems in New Jersey.

But the gap between con-

*(See **ECOLOGICAL**, page 87)*

NAFEM in Dallas '89
Full coverage on pages F14, F16, F16D

McDiscounting fuels price-slashing wars

By Rajan Chaudhry

OAK BROOK, Ill. — McDonald's Corp. is embarking on a three-pronged price strategy designed to turn up the heat on competitors and stem five quarters of slipping customer counts.

At the very least, the quick-service segment is entering a new round of competitive price cuts, said analysts and industry executives. "It's going to get bloodier over the next several months," asserted analyst Joseph Doyle of Smith Barney, New York.

McCHICKEN SANDWICH and LARGE FRIES
$2.39 (plus tax)
Present this coupon at McDonald's.* It entitles you to a Country Style McChicken Sandwich and a large order of French Fries for only $2.39 plus tax. Prices may vary.
Offer Valid October 7 thru October 19, 1989
Good only at participating McDONALD'S* in Duluth, Superior, Cloquet, Grand Rapids, Hibbing, Ironwood, Virginia and Ashland.
Not good in conjunction with any other offer. Limit one coupon redeemable per food item per customer per visit. A.P.
7
Void where prohibited. Cash value 1/20 of 1¢ 1988 McDonald's Corporation

And many predicted that the 11,000-unit giant's new strategy will severely damage some restaurant operations.

"It's definitely going to be hard on the smaller chains and the less-well-heeled larger chains," said analyst Richard Pyle of Piper Jaffray Hopwood, Minneapolis.

In its toughest markets, McDonald's is countering competitors' discounts with a coupon barrage of its own.

The plan for wider use of coupons, disclosed by McDonald's management at a recent

*(See **McD**, page 4)*

Chicago restaurateurs launch fall promotions

By Carolyn Walkup

CHICAGO — Many Chicago restaurant operators are tying seasonal promotions to everything from Oktoberfests and football games to an ancient Indian ritual to try to woo customers away from their TV sets and fall color drives.

The Berghoff Restaurant held its annual outdoor Oktoberfest in September to take advantage of mild weather. Crowds filled the street in front of the restaurant, which was closed to traffic and trans-

*(See **PROMOS**, page 87)*

Arby's licensees enlist Roberts to lead take-over battle charge

By Jack Hayes

ATLANTA — A large group of militant Arby's franchisees, scrapping to wrest control of the chain from financier Victor Posner, installed exiled Arby's president Leonard Roberts as their general in an emotion-packed, secret hotel meeting here.

Some four dozen Arby's franchisees — representing more than half of the 2,100-unit system's licensed units — debated strategies for operating while take-over fights continued with Posner's Miami-based DWG Corp.

Roberts

The group, which has armed itself with a $1 million war chest, also discussed plans for attending the upcoming company-sponsored annual franchisee convention in Phoenix, Ariz.

While the meeting was going on, Posner reportedly placed calls to staffers in Arby's headquarters in Atlanta, ordering them to attempt to break up the gathering under threat of being fired.

"You think it was hot around here today? Just wait till we get to Phoenix," said a franchisee as he headed for the air-

*(See **ARBY'S**, page 4)*

FOOD WATCH

For lobster lovers only

Mindful that lobster holds a firm grip on many seafood lovers, chefs at Southern California restaurants are featuring the succulent crustacean in a variety of innovative dishes and menu promotions.

At Rockenwagner in Venice, chef Hans Rockenwagner recently offered a supplemental menu devoted exclusively to lobster dishes. Two favorites are still being served — a lobster lasagna "checkerboard" and an eggplant-lobster claw soufflé with a sweet and sour beurre blanc containing balsamic vinaigrette and shallots.

At John Dominis restaurant in Newport Beach, chef Robert Reash Jr. expects to serve 2,000 pounds of live Pacific

*(See **FOOD WATCH**, page 4)*

CHARLES BERNSTEIN: CUSTOMERS NEGLECTED IN RUSH FOR PROFITS—Pg. F3

INSIDE NRN

News

Air Force catering has operators up in arms 7
Papa Gino's moves forth with franchise program 7
Burhop's, CDA join forces to open premier fish house . . 7
SFM conference gears toward management, leadership 7
Chef's Academy inducts Hilton's exec chef Ludwig . . . 15
Ed Debevic's to launch branch in NYC's Village 15
Shoney's names Lee's Hixen franchisee of the month . 18
Schafer named Denver Hyatt GM 18
Dobbs taps Shelton for f & b GM post 18
Russian Tea Room rolls seasonal fare 22
Small named director at Cal State, Pomona 22
Dodson to open Sonic drive-ins throughout Fla. 28
Mitsui & Co. plans to acquire Wilsey oil div. 28
Sliwowski dead from stroke at 73 28
Po Folks names Schutte exec chef 33
FAME awards honor directors in school districts 74
Domino's taps Vallance for asst. controller 75

Focus

Section follows page 36
Cover Story/Signature hot beverages F1
Bernstein/Customers neglected in rush for profits F3
Cover Story/The competitive edge in coffee . F7, F8, F11
Cover Story/The Colombian connection F8
T. Boone Pickens addresses NAFEM confab F14
Thurow: Mediocrity hurts economic health of U.S. . . . F14
Industry pros come to Dallas for NAFEM '89 . . . . . F16
FCSI hosts gala reception at NAFEM F16D
For Keith Keogh, his job is his castle F18

Columns

Patterson/Supplier satisfaction: service F4

Food

Fabricant/Culinary trends: East, West, North, South . . . 8
What's Hot/Chicago 8
NRN Food News Digest 8

Marketing

Shop and be heard during 7-Eleven promo 10
Marketing Digest 10
Ad Watch/Ground Round 10

Financial

Judge allows Pantera's to continue operations 12
Budget hotel per-room profits fall for 3rd year 12
Food price outlook 12
NRN Fact File 12
NRN Financial Digest 12
Stock Table 88

Features

Letters F3
Reporters' Journal F4
Quotable F4
Name of the Week F4
Calendar of Events F20, F24
Product News . . 64, 69, 72
Classified 79-85
Advertiser Index 86

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Vol. 23, No. 43 Oct. 23, 1989

NEWS DIGEST

7-Eleven's lobbyist takes helm at FLI

WASHINGTON — Pamela Sederholm, a longtime lobbyist for 7-Eleven, has succeeded William Giery as executive director of the Foodservice and Lodging Institute, a trade association here for restaurant and hotel chains.

Giery has moved to the U.S. Chamber of Commerce, according to an FLI board member.

Previously, Sederholm oversaw the government affairs office here of Southland Corp., the Dallas-based operator of the 7-Eleven convenience-store chain.

Godfather's rolls spicy-meatball pie

OMAHA, Neb. — Godfather's Pizza has rolled out a new pizza made with golfball-sized, spicy meatballs that take their inspiration from New York.

"Anyone who's been to New York City will recognize this rather unorthodox-looking product," said Herman Cain, Godfather's president and co-owner.

Morris' I.H.V. pens deal for Grand American sites

LOS ANGELES — Robert J. Morris, founder of the Gladstone's 4 Fish restaurant here and the new chairman of I.H.V. Corp., has struck a deal for I.H.V. to acquire two waterfront restaurant locations from Santa Monica-based Grand American Fare.

Morris' company, based here, has a separate deal pending with Restaurant Enterprises Group to buy back its landmark Gladstone's and RJ's The Rib Joint units here plus another restaurant site, for $14.5 million.

I.H.V. would get Grand American's Fiasco restaurant, in Marina del Rey, and another unidentified site under construction, in exchange for seven-year, 14-percent-interest bonds, initially worth $1.75 million and convertible to I.H.V. stock at $1 a share.

Grand American, which owns Saddle Peak Lodge and 32 other restaurants, would own about 8 percent of I.H.V.

Restaurants Unlimited eyes pasta, pizza, salad concept

SEATTLE — Restaurants Unlimited, the dinner-house operator here, said it has begun development of a new concept that would feature moderately priced pasta, pizza and salads.

The regional player has also begun work on the prototype Zoopa, a new type of restaurant featuring a soup-and-salad bar.

E.S. Jacobs, the New York financier, has agreed to buy a majority stake in Restaurants Unlimited. The infusion of cash will facilitate the start-up of new concepts, according to executives.

National Pizza signs agreement to buy Skipper's

By Milford Prewitt

PITTSBURG, Kan. — National Pizza Co., Pizza Hut's largest franchisee, has signed a definitive agreement to acquire Skipper's Inc., the Bellevue, Wash.-based quick-service seafood chain that National has been pursuing for almost a year.

National agreed to pay $31.2 million — at $11.50 per share — for the company, provided that two-thirds of Skipper's shares were tendered by Oct. 20.

National said its dispute with Pizza Hut regarding the Skipper's purchase has been settled. Pizza Hut had opposed its franchisee's efforts to diversify and said earlier this year that the acquisition could have jeopardized National's license.

As a result of the agreement, National will be permitted to acquire Skipper's despite conditions in its franchisee agreement that forbid the operation of restaurants other than Pizza Hut.

Skipper's operates or holds the franchise rights to about 360 units. National operates 340 pizzerias and delivery kitchens.

Victor's Cafe 52 owners plan to open Miami clone

MIAMI — The owners of Victor's Cafe 52 in Manhattan are converting the shuttered Studio restaurant here into a second Victor's Cuban cuisine restaurant.

Slated to open in February, the Miami Victor's would accommodate 400 and would feature three dining areas, a cocktail lounge and eventually a second floor for banquets, said a spokeswoman. Victor's owners, Victor del Corral and daughter Sonia Zaldivar, bought the Studio site earlier this year.

Victor's Cafe 52 is known for such Cuban specialties as roast suckling pig, shredded beef and black beans and seafood.

TCBY enters low-cal fray with new sugar-free yogurt

LITTLE ROCK, Ark. — TCBY Enterprises Inc. said it would launch a systemwide introduction of a sugar-free frozen yogurt product in November.

TCBY is the nation's largest franchisor of frozen-yogurt outlets, with about 1,200 stores.

A quest is under way in the frozen-snack market to develop products forgoing the calories, cholesterol and fat of traditional frosty treats, such as ice cream. Earlier this year, Häagen Dazs introduced a low-fat dessert called Low, Lit'n Luscious.

Takeover stocks drop, spur market plunge

By Rajan Chaudhry

NEW YORK — Turmoil in the junk bond market sent skittish investors fleeing from takeover stocks, rocking hotel issues and sparking the worst stock market plunge here since Black Monday in October 1987.

Prices of lodging stocks, which had been skyrocketing this year as the assets of real-estate-rich chains and favorable exchange rates combined time and again to draw huge bids from foreign concerns, fell sharply as investors lost confidence in deal stocks.

Days before the crash, upheaval in the junk bond market had stalled Ramada's sale of its hotel operations, sending tremors throughout the investment community. Then, on Friday the 13th, after an investment group said it was unable to secure financing for the buyout of UAL Corp., parent company of United Airlines, the market for takeover stocks crumbled, triggering a wave of selling.

Hilton, which is on the sale block, plunged $21.50, to $85 a share; Holiday, which has an agreement to sell its hotel operations to London-based Bass PLC, fell $7.75, to $71.50; Ramada, which plans to sell its hotels to New World Development Corp. in Hong Kong and Prime Motor Inns, dropped $1.75 to close at $9.50; and Marriott slipped $1.62, to $36.

Restaurant stocks, including some of the year's strongest performers, also took their lumps.

Pepsico, for example, fell $5.62, to $54 a share; TCBY sank $2.75, to $24.38; Dunkin' Donuts slid $2.62, to $44 and Shoney's dropped $1.50, to $10.12.

Other losers included Wendy's, which dipped $.50, to $5.12; Collins Foods, which fell $1, to $20.50; Chili's, which lost $.88 to close at $28.75; and Sbarro, which sank $.75, to $19.50.

The Dow Jones Industrial Average fell 190.58, to 2569.26, the second-largest one-day drop ever and the 12th worst on a percentage basis.

FINANCIAL NEWS

Judge allows Pantera's to continue operations

By Milford Prewitt

DALLAS — A federal bankruptcy judge has given Pantera's Corp., operators of the Pizza Inn chain, the green light to continue operating its restaurants, relying on incoming revenues to proceed with its reorganization plans.

In one of its first hearings since filing for creditor protection under Chapter 11 earlier this month, Pantera's was given the leeway to use revenues from continuing operations rather than disposing of assets to reorganize.

Nevertheless, the company disclosed that it is trying to sell 40 of its 180 Pizza Inn units.

Pantera's returned to court when its lenders slapped cash collateral liens on the company, a move it said could have stymied its efforts to reorganize had the judge not approved its request to use proceeds from its operations.

In Pantera's Chapter 11 filing, the Pizza Inn division listed assets of $76.7 million and liabilities of $81.7 million. More than one-third of its debts, $35.5 million, is bank loans it incurred when it bought Pizza Inn in 1987 for $48 million.

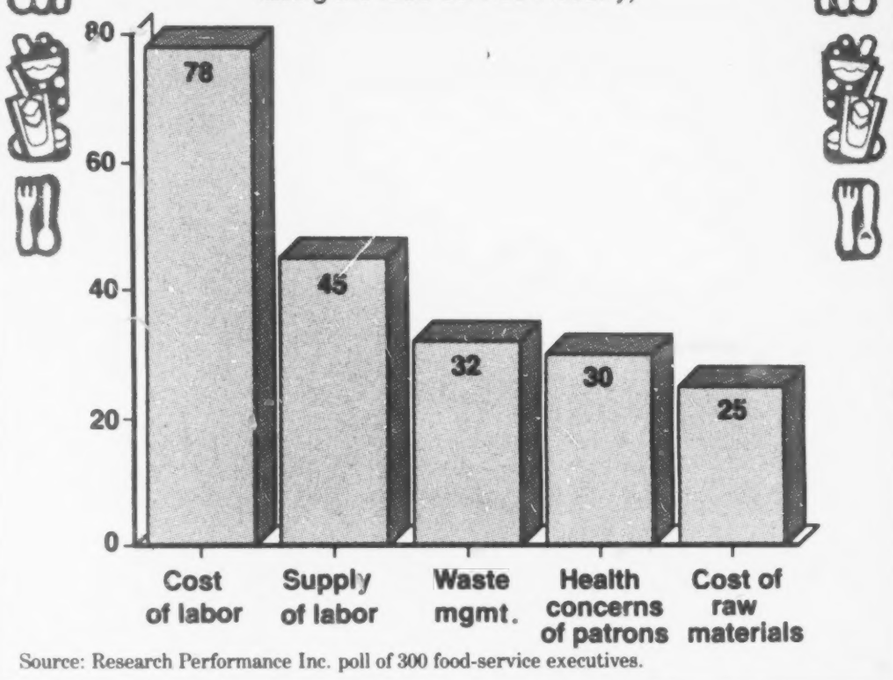
Meanwhile, the company is revamping its marketing efforts as a result of the poor performance of its Italian buffet, introduced in April.

FACT FILE

A look at the statistics shaping the industry

LABOR, WASTE MANAGEMENT HEAD OPERATORS' LIST OF CONCERNS

(percentage naming the following as major issues facing the food-service industry)



Source: Research Performance Inc. poll of 300 food-service executives.

Budget hotel per-room profits fall for 3rd straight year in '88

By Rajan Chaudhry

PHILADELPHIA — Per-room profits for the budget-lodging segment fell in 1988 for the third straight year, but the segment remained the hotel industry's most profitable, according to a newly released report by accounting firm Laventhol & Horwath.

Last year's $248 median per-room profit for budget-lodging operations was off by 45 percent over 1987 and down 84 percent over 1986. Nevertheless, the $248 profit compared with a per-room loss of $429 for the industry as a whole, noted Laventhol & Horwath in its report, "U.S. Economy/Limited Service Lodging Industry 1989."

The median occupancy rate at budget hotels declined year-over-year to 64.4 percent from 65.3 percent in 1988, while room rates rose about 4 percent, to $31.91.

And development outstripped demand, with demand growing by 3.8 percent and the supply of rooms growing 4.7 percent.

Budget operations account for more than 12 percent of all properties in the lodging industry.

According to the report, the 50 largest economy hotel chains added almost 23,400 new rooms last year, and of those, almost three-quarters were built by the 10 largest chains.

One operation, Silver Spring, Md.-based Comfort Inns, far outpaced its competitors last year. The chain grew by 32 percent — or 10,900 rooms — accounting for almost half the total for the segment.

The trend appears to be continuing, according to Laventhol & Horwath. It projected that four chains — Marriott Corp.'s Fairfield Inns, Hampton Inns, Comfort Inns and Super 8 Motels — would account for 44 percent of the 52,900 newly constructed rooms forecast for this year.

Counting conversions, the budget-lodging segment is expected to grow by 17.5 percent, to 91,300 rooms, by year's end.

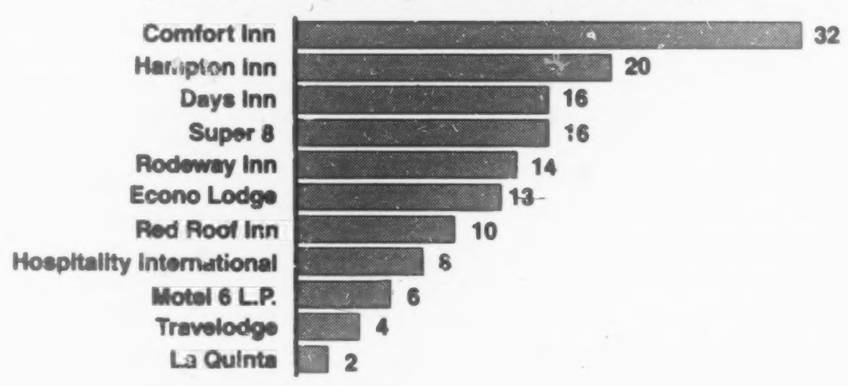
Travelodge, with 13,200 new rooms, and Days Inn, with 12,600, are leading the other chains this year.

"There is very little room left for independents in this business," said Dan Daniele, a senior principal of Laventhol & Horwath, in the report.

"These days getting good sites and financing really requires the muscle of a major chain."

COMFORT INNS GREW AT FASTEST RATE IN 1988

(annual percentage change in number of rooms, 1988)



Source: Laventhol & Horwath

NRN FINANCIAL DIGEST

Ramada deal hits a snag

PHOENIX, Ariz. — Upheaval in the junk bond market has forced Ramada Inc. to scrap a $400 million offering of high-yield debt securities and delayed the sale of its hotel operations while it revises its restructuring plan, the company said.

Ramada agreed in April to sell its hotel business to New World Development Co. of Hong Kong and Prime Motor Inns Inc. of Fairfield, N.J., for $540 million.

Arranging financing for Aztar — the gaming company that was to remain after the sale of the hotels — is a condition of the agreement.

Ramada said that a new plan would require approval by shareholders and gaming regulators in Nevada and New Jersey and that it can offer no assurance that it will complete the restructuring.

The company has also asked for an extension of the original Nov. 30 termination date for the agreement.

Mister Donut on the block

MINNEAPOLIS — International Multifoods Corp. said it has begun discussions with more than three parties for the possible sale of its Mister Donut chain.

The company said it expects to decide whether it will pursue a sale by year's end. It would not name the interested parties.

Mister Donut, with 486 franchised stores in the United States and 87 in Canada, posted sales of $156 million in fiscal '89.

Max & Erma's sells 520,000 shares

COLUMBUS, Ohio — Max & Erma's Restaurants Inc. said it completed the sale of 520,000 common shares for about $2.9 million.

The stock was sold to holders of common stock purchase warrants, which expired earlier this month, the company said.

Max & Erma's said most of the proceeds from the sale would be used to fund growth beyond 1990.

The sale brings the company's number of common shares outstanding to more than 3 million.

H & H completes private placement

NEW YORK — The Horn & Hardart Co. said it completed a $50 million private placement of two-year increasing-rate senior secured notes due Oct. 6, 1991.

The company, which operates 153 restaurants and a mail-order catalog unit, said 40 percent of the proceeds would go toward repurchasing the fee interests in five parcels of real estate here that were financed in sale-leaseback transactions in the '70s.

Horn & Hardart said that it intends to sell the properties in the near future and that it is required to use the proceeds from the sale to to repay the financing. The balance of the proceeds will be used to refinance about $20 million of short-term debt and to obtain working capital.

FOOD PRICE OUTLOOK

Egg prices may climb again

Egg prices, running about 20 percent higher this year than last, will probably ratchet up again. The U.S. Department of Agriculture has doubled to five cents per case the advertising and promotion assessment under its egg marketing order . . Canadians are protesting the finding that its **pork** imports here are unfairly competing with U.S. producers. The recently signed free trade agreement doesn't prohibit countervailing duties based on GATT rules.

Imported **canned ham** prices continue to rise. Inventories are down, and incoming product carries higher price tags despite recent dollar strength . . . **Shrimp** imports continue to increase, but there are shortages of the large sizes, both imported and domestic. Expect prices of medium and smaller sizes to drop, prices of larger shrimp (12s and under) to remain stable or increase.

Cheese prices are up 10 percent over last year's and may go higher. Cheese production is down, and there are no big U.S. government inventories overhanging the market . . . **Butter** prices, on the other hand, are down from last year's. Even though butter production tapered off recently, inventories are up about 50 percent above last year's.

Banana supplies have improved, and prices have dropped since the effects of the Costa Rica strike are fading. Prices and supplies should remain normal through winter . . . **Lettuce** production is shifting from the central California Coast to the desert. The outlook is good if the whiteflies don't become a problem.

Expect **frozen cauliflower** prices to continue to move up. Imports are down, and California's pack is below last year's, with producers paying higher field prices . . . **Frozen broccoli** prices are remaining stable on strong demand, although imports are up more than 35 percent over last year's, and the California pack is expected to be a good one.

— Patt Patterson

FOCUS | OPINION

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Customers neglected in rush for profits

"Customer first, employee second, community third, profit last."

It sounds like sacrilege, but this philosophy is really the route to success in the food-service business. Many corporations, chains and independents assume that profit comes first, conveniently overlooking the fact that it essentially is a result of doing well with the customer.

The above-quoted philosophy, expounded by Stephen Nygren and Richard Dailey, partners in the 15-unit Atlanta-based Peasant Restaurants group, is a basic premise often forgotten by profit-minded companies.

"It isn't practical to expect that there will never be a dissatisfied customer, that no meal will be less than perfect, that service will never fall below par," the partners emphasize. "But we do expect excellence 100 percent of the time, and because we do, we come pretty close to meeting that standard."

Peasant Restaurants, now partially owned by the Quantum Restaurant Group, is a private company that does not have to worry about stockholders. Many of the public firms involved with restaurants think, or are compelled to think, that the main purpose of the business is to please stockholders. They lose sight of the basics and often end up pleasing nobody.

A high return on shareholder equity is presumably spurred by a high level of customer satisfaction. But a classic confrontation has occurred at PepsiCo, where some of the franchisees maintain that the corporation is interested only in the stockholders, not in the franchisees, employees or customers.

Franchisees assert that when they want more KFC sites in their territory, PepsiCo often gives the best ones to Pizza Hut or perhaps to Taco Bell. PepsiCo is looking at the overall picture and may feel that one of them could yield a higher return on a particular site and not overlap with KFC. But the action tends to favor the stockholders, not the franchisees or customers.

The way Greyhound Corp. chairman John Teets sees it, shareholders will achieve the highest equity when the company is pleasing customers to the maximum degree. "There is pain in business," he says. "You have to be tough on yourself and insist on accountability. You have to push yourself to achieve more."

Accountability is everything to T. Boone Pickens, chairman of the United Shareholders Association and general partner of Mesa Petroleum. He portrays American corporations of eight years ago as bloated and bureaucratic but sees the situation improving as managers take a direct stake in stock ownership and thereby become accountable. But there are still many executives spending more time and money "protecting management rights than shareholder rights" or the rights of customers or employees.

A restaurant or any other food-service operation should not be run by starting with a budget and a strict bottom-line projection and forcing everything else to comply with that framework. Instead, it must be operated based on what is needed to pull in more customers and thereby boost sales and profits.

It justifiably drives Michael Hurst of the 15th Street Fisheries restaurant, Fort Lauderdale, crazy to hear constant talk in the industry about the bottom line or the stockholders. "This business is about customers, not profits," he declared in a New Orleans talk this month to the nation's leading fine-dining owners. "You make decisions entirely for the benefit of customers."

What most horrifies Hurst is employees running around a restaurant, wanting to know "What was the profit tonight?" He is delighted after a long evening when the employees light up and say, "Did we score tonight, boss?" In effect, was the customer count larger? Were the seats full all or most of the evening?

Hurst sets a target to increase customer counts by 25 percent each year. He doesn't make it, but the employees work hard enough and friendly enough to approach that goal.

"We constantly put employees out there who don't know what hospitality is," he says of the industry. "We need nice people who care. Excellence of service is what it takes."

Hurst conducts all key personnel interviews himself to ensure that he gets employees who are tuned in verbally and in body language. "I want enthusiasm and excitement," he declares. "I want people with a flair for the dramatic, who will turn on customers by their excitement about everything that happens here."

He places profits last on the pyramid, but because he and his employees cater to the customers so profoundly, his estimated annual volume is near $7.5 million and profits are substantial. He achieves more repeat business than anyone else, and each satisfied patron brings in a mushrooming flow of more and more.

Why are there fewer customers per restaurant today? This relates not just to a saturation of units but to customers being less satisfied with service that is less than wonderful. Customers are looking for a value-added experience, a pleasant smile, something extra. Instead, they are usually disappointed with mediocre and even unpleasant hospitality.

Let's switch the old saying of "location, location, location" to "customer satisfaction, customer satisfaction, customer satisfaction." And let's do everything possible to give the customer dedicated service and extra effort with a smile. Only then will the seats be fuller and the sales and profits higher.

CORRECTION

Owing to typographical errors, two references were inadvertently made to "Riese" in Charles Bernstein's Oct. 9 Editor's Corner column, "The Extensions Trap: One niche prevails."

All the remarks and assertions mentioned were by Al Riese, author and positioning expert. No members of the Riese Organization or related family members were involved in the material that the editorial quoted.

LETTERS

Remembering Vesley: capturing his spirit

Editor, NRN:

I don't always agree with you, but your Sept. 11 obituary article on "Ves" (Charles Vesley) was right on. He and I were friends for 20 years, and you captured him perfectly!

— David A. Stein
president
Southern Industrial Corp.
(a Burger King franchisee)
Jacksonville, Fla.

The great ad ripoff: A great form of flattery

Editor, NRN:

I was very disappointed to find Nation's Restaurant News would inadvertently publish information without first checking sources for authenticity.

I'm referring to the "Ad Watch" column in your Sept. 11 issue. The ad for Tony and Joe's Seafood Place is clearly a "rip-off" of our ad for The Manhattan Ocean Club, which has been running in The New York Times since February 1989, predating the Tony and Joe's ad.

There has been a spate of copycat ads from seafood restaurants mimicking our "We Are Fish" ad.

I think credit should be given where credit is due. The Manhattan Ocean Club and its ad agency, Angotti Thomas Hedge, are the originators of the idea for the ad and should be recognized as such.

— Carol Shalaew
public relations director
The Manhattan Ocean Club
New York City

Fax Us Your Letters

Nation's Restaurant News welcomes letters on timely topics. And now, you can fax them to us at:

(212) 838-9487

Make sure all letters are addressed to Letters Department, Nation's Restaurant News.

As usual, all letters may be edited for reasons of space or clarity. Nation's Restaurant News cannot consider unsigned letters, but will withhold names on request.

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